Velesto Energy (VEB MK)

In Better Position For Sustainable Dividend Returns

	BUY (Upgraded)
Share Price	RM0.24
Target Price	RM0.35
Upside	+45.8%

Analyst(s)
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Highlights

- **Reassessed forecast and concluded ability for higher dividend justified.** We see no major changes to a positive JU rig outlook, as a normalisation of rig rates and 75% utilisation assumption is still our base case scenario. We also do not assume "bonus" contracts beyond those utilising its fleet of six JU rigs. However, the minimal capex requirement is what prompted us to upgrade our DPS forecast substantially, as there are no costly special periodic surveys (SPS) for the 2026-2027 horizon.
- **VEB's unique competitive position in a bullish market outlook** mitigates the risks of asset replenishments and volatile market cycles. Even with rig Naga 3 (N3) being considered out of favour, we think the market underestimates VEB's financial position, which is far stronger vs peers, including Petrovietnam Drilling which is in growth mode. Upgrade to BUY, and target price to RM0.35 (from RM0.22). Even with this upgrade, yield remains attractive at our new DPS assumption of up to 3 sen.

Analysis

- **We see no major changes** in: a) global and local JU rig outlook, which remain positive driven by a tight rig supply; b) assumption of normalising daily charter rate (DCR) to US$90,000-100,000, amid a softer but more sustainable JU market condition, and this was further illustrated by the latest rig data from Westwood (on the next page); and c) 75% utilisation assumption on the current six JU rig fleet, which reflected normalising Petronas rig requirements but offset by higher ASEAN rig demand.
- **We do not assume any "bonus" contracts beyond utilising the six JU rigs,** although this upside is possible, as we have noticed a trend of successful O&G players in diversifying business strategies, ie Uzma as a partner of a seismic acquisition contract, and Vantris Energy's breakthrough into the Middle East. For VEB, this may include: a) an asset-light manager for another rig, b) another improved i-RDC contract, c) materialisation of the collaboration with Icon Engineering, or d) decommissioning jobs that may involve hydraulic workover units (HWU).

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	1,215	1,360	829	750	714
EBITDA	360	579	436	371	345
Operating profit	157	334	181	109	90
Net profit (rep./act.)	99	208	129	86	75
Net profit (adj.)	82	205	129	86	75
EPS	1.0	2.5	1.6	1.1	0.9
PE	24.1	9.6	15.3	22.8	26.4
P/B	0.8	0.8	0.8	0.8	0.9
EV/EBITDA	7.6	4.2	5.2	6.1	6.7
Dividend yield	1.0	5.2	10.2	12.8	12.8
Net margin	8.2	15.3	15.6	11.5	10.4
Net debt/(cash) to equity	9.1	n.m	n.m	n.m	n.m
Interest cover	10.0	8.4	225.0	n.m	n.m
ROE	4.2	8.6	5.4	3.7	3.3
Consensus net profit	-	-	164	145	153
UOBKH/Consensus (x)	-	-	0.79	0.59	0.49

Source: Velesto Energy Berhad, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Energy
Bloomberg ticker	VEB MK
Shares issued (m)	8,215.6
Market cap (RMm)	1,972.0
Market cap (US$m)	469.7
3-mth avg daily t'over (US$m)	5.8

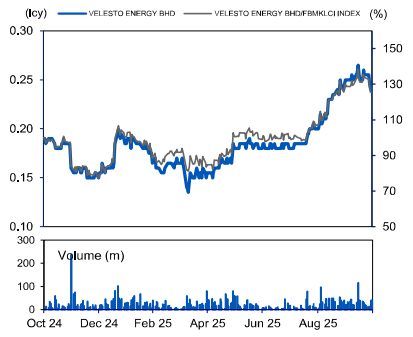
Price Performance (%)

52-week high/low				RM0.23/ RM0.17
1mth	3mth	6mth	1yr	YTD
0.0	50.0	60.0	26.3	54.8

Major Shareholders

	%
Skim Amanah Saham Bumiputera	37.9
Yayasan Pelaburan Bumiputera	11.1

Price Chart



Source: Bloomberg

Company Description

Velesto Energy (VEB), formerly UMW O&G, is the premier local jackup (JU) rig service provider in Malaysia. It operates a fleet of six JU rigs.

- **Rig Naga 3 (N3) prospects appear to be capping potential utilisation to exceed 75%.** N3 had been idle throughout 2025 and will likely remain idle until 2H26. According to Westwood, JU rigs as old as 40 years old are still being employed; however, rigs are being considered for attrition (even in tight market conditions) due to out-of-favour technical specifications, being stacked for too long, or due for expensive SPS. Amongst VEB's rig fleet, Naga 2 (N2) and N3 are older by 4-5 years, but more importantly their leg length at 484 ft pale in comparison to other sister rigs at over 500 ft (their design water depth is only 350 ft vs 400 ft for the other sister rig designs). N2 remains contracted as it was not subjected to long idle time or SPS.
- **We believe it will be more positive for VEB to dispose of N3 as soon as able,** if the market value remains favourable. We estimate a decent disposal, as N3 should fetch a market value of US$50-60m after including its recent SPS. Otherwise, N3 will be stacked (at a daily cost of US$25,000 if we assume half of normal opex rate) and the longer it is stacked, the slimmer its chances of recontracting or disposal.

Valuation/Recommendation

- **Upgrade to BUY, with target price adjusted to RM0.35 (from RM0.22).** We raise our EV/EBITDA methodology to 7x (from 5x average), to reflect the group's financial resilience and commitment to reward shareholders in the current industry cycle. Our valuation implies 36x 2026F PE, but at an attractive 9% dividend yield.

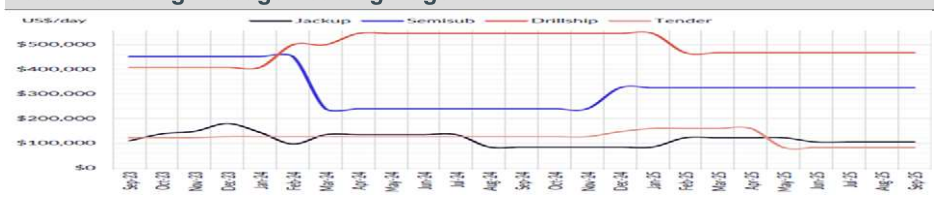
Earnings Revision/Risk

- **Key revisions.** While retaining DCR and utilisation assumptions, the most defining component that raise our DPS forecast, among the key revision (listed on the RHS), is reduced capex assumption.
- **2025F EBITDA is now aligned to consensus.** Our new EBITDA for the forecast years were revised by +6%/ 0%/ -7% to RM436m/ RM371m/ RM345m respectively. 2026-27F EBITDA remains below consensus, as we stress test VEB's dividend paying ability. 2025F-27F profit and DPS changes were +25%/ 0% / +14% and +33%/ +119% / +119% respectively.
- **VEB can comfortably afford dividend reflecting 13% yield to last price.** Our new DPS for the forecast years are (in sen) 2.45/ 3.06/ 3.06 respectively. We assess this ability being that VEB is still able to retain a similar cash pile of RM0.2b-RM0.4b, after noting its minimal capex and debt requirements, and asset-light strategy (should a new growth be identified and not yet input by analyst forecasts). We also assessed its receivables trend and believe that the accrued income should normalise back to historical levels of RM150m.
- **Risks include:** a) Utilisation falling substantially to below 75%, and b) new DCR falling substantially to below US$90,000.

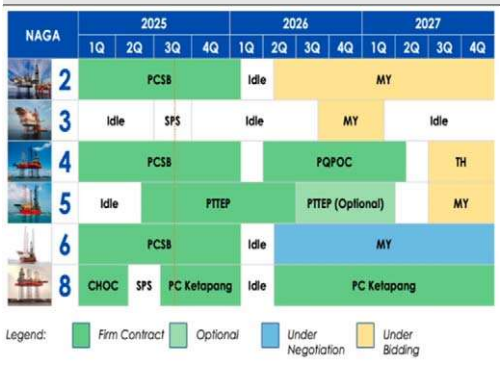
Share Price Catalyst

- **Unexpected contract wins, especially a full healthy order pipeline for N3.** We do not factor in major non-drilling or asset-light "bonus" contracts, nor factor additional rig contracts upside to utilise N3 substantially. Having said that, and even though the dividend yield looks attractive, we believe any share price movement may see resistance once it reaches above our target price. We recall numerous speculation articles of PNB (which owns 51-54% of VEB collectively) attempting to sell their stake of VEB in the past, with the most recent speculation about the privatisation of VEB. We assume PNB's average investment cost per share may be over RM0.40.

Asia Pacific Rig Average Leading-Edge DCR*



VEB's Rig Schedule As Of July 2025



Source: Velesto Energy (VEB)

Assumptions - Daily Charter Rate (DCR) Basis

	2025F	2026F	2027F
US$/ RM forex rate	4.40	4.20	4.20
Utilisation	75%	75%	75%
DCR, US$'000	110.0	99.0	93.0
Rigs Revenue, RMm	758.8	683.0	641.6
Workover Revenue, RMm	60.0	65.0	70.0
Workover Revenue (%)	7.3	8.7	9.8
Daily OPEX, US$'000	33.0	32.4	31.4
- Utilised, US$,000	47.7	45.8	44.0
- Stacking, US$,000	24.3	25.5	26.7
Daily depreciation,	27.7	28.5	27.7
Daily finance cost,	0.5	0.9	1.1
Daily tax cost, US$,000	5.4	3.3	2.6
Profit Breakeven	66.7	65.1	62.8

Source: UOB Kay Hian Estimates

Key revisions

- Removing our earlier diluted share base of 10b to reflect the current 8.2b shares. Warrants with exercise price of RM0.39 already expired in 2024
- Cut 2026F/27F US$/RM rate from 4.4 to 4.15 (aligning to UOB Economic Research's forecast as of 4Q25)
- Revised revenue components (by eliminating i-RDC assumptions)
- Revised 2026F/27F yearly capex from RM0.3b to RM0.1b
- Corporate expenses surged substantially to RM99m in 2024 (but this included provisions; though amount was not revealed). We assume 10-15% cost savings to RM80-90m opex in forecast years

Source: UOB Kay Hian Estimates

Historical Financial Data

RMm	2019	2021	2022	2023	2024
Segmental revenue	**670.8**	**377.5**	**580.9**	**1,213.8**	**1,360.4**
- Drilling	660.1	359.3	483.1	1,281.7	1,637.3
- Integrated project*	na	6.6	86.7	401.8	297.6
- Oilfield services	10.2	10.4	10.1	12.0	12.3
- Others**	5.2	2.4	2.7	2.7	2.1
Segment profit	**33.1**	**(90.8)**	**(100.4)**	**121.2**	**207.7**
- Drilling	62.2	(48.7)	(44.1)	159.8	280.4
- Integrated project*	na	(8.2)	(16.1)	22.5	24.8
- Oilfield services	0.9	3.6	2.3	3.0	1.9
- Others**	(30.0)	(37.5)	(42.5)	(64.0)	(99.4)
Trade receivables	**284.2**	**198.7**	**359.1**	**335.2**	**264.2**
- Accrued income	153.0	63.5	233.2	240.0	186.8
- Accrued income	na	na	na	50.5	4.9
EBITDA	324.5	112.0	113.2	360.2	579.3
Capex	(112.3)	(72.9)	(147.4)	(119.1)	(264.7)
FCF	212.2	39.1	-34.2	241.1	314.6

**Note: Integrated project comprised of hydraulic workover units (HWU) and Integrated Rig Drilling Services Completion (i-RDC). The 2-year i-RDC contract worth US$135m was completed in Oct 2024*
***Note: Effective 2025, Integrated project and corporate expenses are merged together under Drilling. Effective 2025. Oilfield services are merged under "Others" alongside academy services. We feature the historical data of "Others", which we assumed comprised mainly corporate expenses*
Source: Velesto Energy (VEB)

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**1,360**	**829**	**750**	**714**
EBITDA	579	436	371	345
Deprec. & amort.	246	255	263	283
EBIT	334	181	109	90
Total other non-operating income	0	0	0	0
Associate contributions	(69)	(2)	(6)	(1)
Net interest income/(expense)	267	179	115	98
Pre-tax profit	**(59)**	**(50)**	**(29)**	**(23)**
Tax	0	0	0	0
Minorities	208	129	86	75
Net profit	**205**	**129**	**86**	**75**

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	2,366	2,092	2,129	2,146
Other LT assets	5	5	5	5
Cash/ST investment	248	351	398	376
Other current assets	315	345	322	311
Total assets	**3,063**	**2,865**	**2,754**	**2,597**
ST debt	178	113	203	293
Other current liabilities	294	250	234	226
LT debt	0	0	0	0
Other LT liabilities	2	2	2	2
Shareholders' equity	**2,572**	**2,865**	**2,754**	**2,597**
Minority interest	0	(21)	(41)	(62)

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**602**	**317**	**332**	**300**
Pre-tax profit	267	154	119	91
Tax	(59)	(50)	(29)	(20)
Deprec. & amort.	246	255	263	283
Associates	0	0	0	0
Working capital changes	95	(117)	17	9
Other operating cashflows				
Investing	**(230)**	**(140)**	**(100)**	**(100)**
Capex (growth)	(264)	(140)	(100)	(100)
Investments				
Proceeds from sale of assets	20	0	0	0
Others				
Financing	**(233)**	**(74)**	**(185)**	**(222)**
Dividend payments	(22)	(144)	(215)	(252)
Issue of shares	0	0	0	0
Proceeds from borrowings	(170)	0	0	0
Others/interest paid	0	75	90	90
Net cash inflow (outflow)	**140**	**104**	**47**	**(22)**
Beginning cash & cash equivalent	**132**	**248**	**351**	**398**
Changes due to forex impact	(25)	0	0	0
Ending cash & cash equivalent	**248**	**351**	**398**	**376**

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	42.6	35.6	34.9	35.9
Pre-tax margin	19.7	13.3	11.0	8.8
Net margin	15.3	9.0	8.3	6.9
ROA	4.3	2.2	1.9	1.5
ROE	8.6	4.3	3.8	3.0
Growth				
Turnover	323.7	258.8	235.6	223.6
EBITDA	(2,211.9)	(1,595.3)	(1,470.2)	(1,460.5)
Pre-tax profit	(122.6)	(113.0)	(110.0)	(107.7)
Net profit	(117.7)	(108.8)	(107.6)	(106.0)
Net profit (adj.)	(149.3)	(124.9)	(121.5)	(117.1)
EPS	(149.3)	(124.9)	(121.5)	(117.1)
Leverage				
Debt to total capital	6.9	4.5	8.1	12.0
Debt to equity	6.9	4.5	8.1	12.0
Net debt/(cash) to equity				1.1
Interest cover (x)	8.4	194.9		

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